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SUBJECT: Israel Strengthens Science and Tech Strategy

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11. (U) Summary. The confluence of several different GOI initiatives indicate that the government is reassessing its industrial policy. Broadening Israel's R&D strength beyond the high-tech IT and communications sectors is the objective, with energy, life sciences, water and cleantech sectors being the priorities. By grappling with these issues, Netanyahu hopes to address both short term and long term economic problems Israel faces. End Summary.

Doing Well, and Doing Better

12. (U) At a Cabinet meeting February 7, Prime Minister Netanyahu announced that he is establishing a team headed by National Economic Council Chairman Prof. Eugene Kandel to formulate a national policy on reducing dependency on petroleum, focusing on alternatives and research. This comes on top of recent GOI actions to strengthen high-technology funding from the Office of the Chief Scientist of the Industry Ministry, start a Life Sciences Venture Capital fund, and augment the Israeli contribution to the three US-Israel bilateral research foundations. Separately, Finance Ministry DG Shani has started discussions with Kandel on the country's industrial policy, asking questions such as what is the best R&D policy, whether to encourage large companies or small companies, how to further cooperation between academia and industry, and whether to encourage investment in one sector over another. Since November, when the PM asked Kandel to formulate a new model for supporting R&D in industry, Kandel has been rethinking how to better engage the private sector.

13. (U) Some of these issues were brought into focus by the February 8 announcement by Intel Israel General Manager Maxine Fassberg that Israel is in competition with Ireland to be the host of Intel's new 22-nanometer chip fabrication plant. Intel is comparing the government grants and incentives of the two countries, and will decide on the venue in mid-March. At present Intel has \$7.3 billion invested in Israel, of which \$1.3 billion came from government grants. Intel is now Israel's largest private sector employer with nearly 6500 employees working at two chip plants and three design and development centers. It exported \$3.4 billion of products from Israel in 2009, about 10 percent of the country's tech sector total exports. The new plant would cost \$2.7 billion and add 400 more jobs. Debate over how much the government should spend to attract investment from one of the world's best capitalized companies is expected.

14. (U) Opponents of massive government pay-outs to attract foreign high-tech producers prefer to see such funds spent domestically. Israel has long promoted home-grown technology start-ups. Since 1993 the government has funded a program of assistance and advising to small technology entrepreneurs, the Yozma program. Yozma founded the Israeli venture capital market, and since then has sunk \$170

million into companies in all phases of development with a primary focus on the early stage. Initial individual investments by Yozma in the start-up's equity typically range between \$1 million and \$6 million. Yozma works with companies on their business plan, on management and hiring issues, and in finding strategic partners when they are mature enough to go public. In a less structured but equally important vein, the Industry Ministry's Chief Scientist office controls a purse of 1.7 billion NIS (USD 456 million), up from 1.2 billion in 2007. These funds are used to support handpicked R&D priorities, and the Chief Scientist has great latitude in how he can distribute it to spur enterprise development.

Yozma and the Chief Scientist's program are only two of the ways the GOI has invested in Israel's innovation capability (described more fully reftel).

Life Sciences Targeted Separately

15. (U) In a December 8, 2009, meeting with the investment community, Israel's Ministry of Finance and Ministry of Industry and Labor jointly unveiled a publicly financed Venture Capital Life Sciences Fund. Finance Director General Haim Shani and Industry and Trade Ministry Chief Scientist Eli Oppor announced the new Fund will total 250 million shekels (\$80 million). Trying to copy the successes of Israeli high-technology start-ups in the Information and Communication fields, the GOI hopes to stimulate Venture Capital investment in the biotech, bio-engineering, pharmaceutical, and medical devices fields. The GOI funds will be invested to leverage private sector buy-in to product development and research. As Shani put it, "we want to attract smart money." There will actually be two or three different funds by sub-sector, with a five-year investment period, and the Life Sciences Fund program is expected to last for ten years. Oppor lauded Israeli's entrepreneurial spirit, but cautioned that the full impact of the new Life Sciences Funds would only be seen in a decade.

16. (U) In announcing the search for managers of the new fund, Shani made clear that only well-experienced VC fund managers would be considered: those who had managed VC funds of at least \$750 million for at least 7 years. Competence in dealing with USG regulatory authorities (FDA, USPTO, NIH) was noted as a pre-requisite for potential fund managers, possibly indicating the export-driven intent of the new VC program. Additionally, the Tel Aviv Stock Exchange (TASE) Board of Directors has announced plans to launch a new equity index covering the biomed sector. Of the approximately 100 technology companies currently traded on the TASE, 38 are in biomed industries, mostly early stage enterprises engaged in life sciences, biotech, pharmaceuticals and medical equipment R&D. The total market value of all biomed shares is US\$2.2 billion.

17. (U) Job creation is apparently another objective; Israel has more than 160 biotechnology R&D companies, of which 90% have fewer than 50 employees and most do not ordinarily reach commercial levels of development. Finding more ways to employ Israel's biotech intellectual capital can reduce the brain-drain phenomenon appearing in academia and medicine.

Comment

18. (SBU) By reassessing its role in S&T development across a range of economic sectors, the GOI is trying to grapple with both present and future problems. For the present, it is trying to maintain Israel's competitiveness as a venue for high tech R&D and production, doing what is needed to attract the Intel and other plants and development centers, and the investment they provide. One the practical side, such measures would help address current unemployment and budget deficit problems. For the future, GOI investments in Venture Capital funds, technology incubators, the binational research foundations (BIRD, BSF and BARD) and other measures aim at securing Israel's technology leadership and productivity in coming decades. Given the challenges the future poses - regaining education excellence, better integrating minorities into the workplace, finding the capital to pursue expensive technologies - Kandel is asking the right questions. An activist state role figures largely in the GOI responses.

Cunningham